

July 12, 2005

To: Honorable Mayor  
City Council Members

Re: 2005-2006 Annual Budget

### **Overview**

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On June 27<sup>th</sup>, 2005 the City Council approved the 2005-2006 Annual Budget. The budget serves as the financial planning tool of the City. It provides for the allocation of resources across the full range of City activities.

Below is a list of factors that will impact the 2005/06 Fiscal Year Budget:

- Continued increase in costs associated with fringe benefits and worker's compensation.
- Increased costs associated with upgrades of facilities and equipment.
- Increased demand for City provided services, funded by the General Fund (parks, public safety and general administration).
- Reduction and deferred payments of State shared revenues (property tax, VLF, sales Tax), also known as the Triple Flip.
- Planning fees associated with growth that has not yet occurred.

The State of California continues to experience financial problems and any solution will impact the revenues received by the City from the State. This will have an ongoing effect on the cash flows of the City and that is why staff has worked diligently to put forth a financial management plan that will balance the budget over the next five years.

Through the use of Redevelopment funds, staff is able to propose a balanced budget in fiscal year 2005/06. Approximately \$183,000 in departmental expenditures will be shifted to the RDA for the upcoming budget year and over \$750,000 has been shifted through fiscal year 2010.

The Budget allows the City to maintain current levels for services funded by the General fund. However, with the significant increase in costs the City is incurring, the challenge facing the City is acquiring the additional revenues needed to meet or expand service levels. New revenues will be attainable through new home and business development outside the RDA boundaries. As discussed in earlier Council meetings, the RDA's share of property tax increments is 75% vs. the City's 12%. Therefore the Redevelopment fund receives approximately \$267,000 more in revenue from property tax allocations than the General Fund.

### **General Fund Revenues**

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Holtville's revenue and other financing sources establish a financial base for the budget. The total proposed General Fund revenue budget for fiscal year 2005/2006 totals \$2,053,209. This amount represents an increase of \$244,568 or approximately 13% from the 2004/2005 budget. The increase in total Revenue is due primarily to an increase in Utility Tax revenues due to the water/wastewater rate adjustments and an increase in "*Transfers in*" from other funds to support

common costs budgeted in the General Fund, predominantly transfers through the Redevelopment Fund.

The Utility Tax is the single largest source of the City's revenue, accounting for approximately 21% of the General Fund's revenue. The City's utility tax is expected to increase by 5% over the current year, if the Council rescinds Resolution 96-21, which placed a cap on Water, Wastewater and Solid Waste Utility Tax revenues.

The City depends heavily on funding from shared revenues from the State of California. These state-shared revenues include the City's portion of Motor Vehicle In-Lieu Taxes. Motor Vehicle In-Lieu Taxes will account for approximately 16% of the General Fund revenues.

Budget amounts for the City's share of Sales tax, MVL Fees and Property taxes have been affected by the State's plan to balance its budget. State voters approved a deficit financing bond measure, known as the "Triple Flip" in March 2004, which included a 25% reduction in the local sales tax that is to be replaced in the following fiscal year (05-06). The City's 2004/05 sales tax adjustment amount was \$34,311.

The City was scheduled to obtain over \$342,000 in Motor Vehicle License Fees in fiscal year 2003/04, but only received \$294,428 in Motor Vehicle License Fee revenues because of the "VLF Swap" implemented by the State. As mentioned previously, the revenue adjustments were made to balance the State budget. The City has received an additional \$47,355 in June 2006. This increases the FY 2004/05 estimated ending balance in the *Revenue from other Agencies* account to \$472,617 as reflected in the five-year projections.

In exchange for State support of Measure 1A local cities committed to property tax reductions in fiscal years 2004/05 and 2005/06, of which were shifted to CA Schools, this is known as the "ERAF III." The City relies on Property Tax increments for funding General Fund expenditures. Property Tax will account for approximately 9% of the General Fund's revenue. The City's property tax collections are expected to increase by 2% over the 2004/2005 tax increment. The Property tax allocation has decreased by 22% when compared to fiscal year 2003/2004. The impact to fiscal year 2004/05 City revenues was approximately \$53,000.

Other sources of ongoing revenues come from Transient Occupancy Tax, Franchise Fees, Business Licenses, services charges, and transfers due from other funds related to common costs. All or most of the sources mentioned need to be increased in order to recover costs associated with providing City services.

### **General Fund Expenditures**

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The City's economic situation is stable. Holtville is experiencing less commercial and residential development when compared to surrounding cities, but is faced with the same rising costs, i.e. costs for materials, supplies/professional services. With a strong financial plan in place the City will be prepared to deal with financial burdens that may arise. Staff continues to look for ways to improve the quality of services provided, while monitoring departmental budgets closely to assure no excess spending occurs.

The General fund provides for general governmental services such as legislative, administrative, finance and public services. Also included in the General Fund are public safety, which includes police and fire; transportation, including street maintenance; planning/development, including engineering and building regulations; and recreational services.

The total proposed General Fund budget for the fiscal year 2005/2006 totals \$2,113,386. This amount represents a decrease of \$279,024 or approximately 12% under the current year's estimated expenditures. Budgeted expenditures have increased in certain departments over the

2004/05 fiscal year, but the overall budget reveals a substantial decrease because of the re-allocation of costs to the Solid Waste Fund and the Redevelopment Fund, as well as position reductions in the Police Department pertaining to Police Officers and budget limitations pertaining to Police dispatch services. The fiscal year 2004/05 budget approved 12 full-time equivalent positions within the Police Department, the 2005/06 proposed budget represents 10 full-time equivalent positions. Estimated 2004/05 ending expenditures related to part-time dispatch services totaled approximately \$85,000, the proposed budget reduces those expenditures to \$65,000. With the Lead Dispatcher position filled, there will be a reduction in part-time dispatch hours resulting in decreased costs.

The General Fund activities and their proportionate share of the budget are summarized below:

Projected Beginning Fund Balance July 2005		\$410,544
Revenues and Sources of Funds	\$2,053,209	
Expenditures and Uses of Funds		
1) Public Safety	\$1,206,308	57.1%
2) General Government	\$ 552,502	26.1%
3) Public Works	\$ 167,199	7.9%
4) Community Development	\$ 75,500	3.7%
5) Recreation	\$ 111,877	5.2%
Total Expenditures and Uses	\$2,113,386	
Projected Ending Fund Balance June 2006		\$350,367

#### **Unexpected Changes to the General Fund Budget**

The fiscal year 2004/2005 started with a healthy cash reserve of \$928,313. There are many reasons for the dramatic decrease in the fund balance; below is a list of unexpected liabilities that occurred in fiscal year 2004/2005, along with loss in potential revenue:

- 1) Water Transfer: There was no fund transfer from the Water Fund to support inter-fund related expenses, this cost the General Fund \$73,610.
- 2) Unemployment Insurance: The UI expenses exceeded the budget by \$43,000.
- 3) City Planning Fees: Planning Fees associated with development and miscellaneous engineering costs increased by 56% exceeding the budget by \$52,000.
- 4) Sales Tax: This is an essential source of revenue for Holtville, the source decreased by 30% over fiscal year 2003/2004, resulting in a reduction of \$35,000.
- 5) Property Tax: As mentioned previously, property taxes account for 9% of the General fund revenues, the tax increments have decreased by 22% over the last fiscal year and are expected to increase by only 2% in fiscal year 2005/2006. This resulted in a \$52,836 difference in the budget.
- 6) Fire Department: Expenditures related Equipment replacement resulted in an excess of \$59,000.
- 7) Streets Department: The purchase of a Water Truck and 1/3 cost of a new Backhoe resulted in a budget excess of \$85,200.
- 8) Other lesser variances included: Increased costs associated with medical exams for new employees due to high turnover in the Personnel Department, addition of a part-time office coordinator (1/3 cost to Finance Department), and misc. expenses associated with utility cost increases.

## **Proposed Changes to the General Fund**

Currently, the ongoing revenues for the General Fund do not exceed General fund expenditures. As noted previously, revenues establish the financial foundation for the budget, in order to successfully meet the goal of having revenues equal to or greater than expenditures the City must allocate legitimate costs with regards to other funding sources. For example, other legitimate sources which include Redevelopment Funds, Enterprise Funds and Special Funds. The City must also propose reductions in certain departmental budgets to accomplish this budgetary goal.

## **Proposed Changes FY 2005/06**

### **Description of Change**

1. Finance Department: 35% of the Finance Manager's salary/benefits have been shifted to the Redevelopment Fund resulting in a savings of \$16,900.
2. Fire Department: 100% of the Fire Prevention Services Officer and Part-time Office Coordinator's salary has been shifted to the RDA Fund resulting in a savings of \$30,000.
3. Parks Department: 100% of Maintenance/Operations costs have been re-allocated to the RDA Fund resulting in savings of \$37,420.
4. Public Works Administration: 33% of the PW Manager's salary/benefits have been shifted to Solid Waste Fund and 70% of the PW Supervisor's salary/benefit costs have been re-allocated to the Water and Wastewater funds for a total savings of \$48,062.
5. Government Buildings: The General fund's portion of the City Hall renovations of \$50,000 has been shifted to the RDA Fund.
6. Planning Department: This budget will be restricted to costs associated with development and Misc. engineering and result in a savings of \$35,000. Approximately \$38,000 was expended on special projects such as the North-end annexation, the Designated Business Enterprise Program and the Service Area Plan update in fiscal year 2004/05.
7. Police Department: The 2004/05 budgeted approved 1 Chief, 1 Sergeant, 6 Police Officers, 1 Executive Staff Assistant, 1 Lead Dispatcher and Six Part-Time Dispatchers. The recommended budget proposes the elimination of 2 Police Officers. The reduction in positions does not result in lay-offs because the two positions have not been filled for over 2 years. The Police Officer FTE count does not include the two Officers budgeted under the State COPS program. These changes result in a savings of \$175,795.

**The total savings to the General Fund is approximately \$394,000.**

## **Enterprise Funds**

The City's water, wastewater and solid waste funds are considered to be self-supporting and are operated separately as business enterprises. Revenues are generated through monthly service charges. The combined Enterprise expenditures are \$3,282,201, the combined revenues are \$2,739,834. The expenses also exceed the proposed revenues.

## **Special Revenue Funds**

The City of Holtville has 17 special revenue funds, which are designated to fund specified programs or services. Several State and Federal grants, which fund activities such as transportation improvements, law enforcement, recreation, low and moderate housing and

community development, are received through these funds. The combined special revenue activity totals \$1,695,450.

### **Internal Service Funds**

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There are three internal service funds that provide services to all operating departments. These include, Equipment Replacement Fund, Employee Health Fund and Public Liability Fund. The Internal Service Funds are used to account for the financing of goods or services provided by outside agencies. The combined internal service fund budgets total \$284,493.

### **Capital Improvement Plan**

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Funding for capital projects comes from various sources including State and Federal Grants, Special Revenue Funds, Enterprise Funds, General Fund, bond proceeds and loans. Please refer to the Five-Year Capital Improvement Plan on page 87. Also note that fiscal year 2005/2006 estimated costs may or may not be the entire project cost, for example, the raw water storage ponds, the cost only pertains to engineering fees associated with the project scheduled for the next fiscal year.

### **Conclusion**

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At present, the financial aspect of the City's budget remains healthy in all areas and the City is positioned to have strong growth in the future.

I would like to thank the City Council and City Staff for providing assistance in preparing the 2005-2006 Annual Budget.

Sincerely,

Steve Hogan  
City Manager